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Ocean Freight Market Update 2023

Introduction: 2022 in Review

After a turbulent period driven by the global pandemic, the Ocean market in 2023 is now facing a market shaped by Covid-hangover issues, geopolitical instability and commercial uncertainty.

The war in Ukraine triggered rising energy and gas prices, pushing up living costs, particularly for energy and fuel. In the face of rising costs, consumers are cutting spending, triggering a massive destocking effect from businesses towards the end of 2022. Meanwhile, improved performance and reduced port congestion – in October, global schedule reliability saw its greatest month-on-month increase in 2022, ***reaching 52%*** – have released capacity that was tied up in sluggish systems.

Shippers have enjoyed a drop in rates across the board, starting with the spot market and now beginning to spread to contract rates. While lower rates have reduced pain of transport for shippers, particularly those not tied into long term, early-pandemic negotiated contracts, the situation indicates another volatile year ahead, with the potential for ongoing disruption:

- Carriers have effectively managed capacity through blank sailings – expect even more with new orders arriving in
- An unsteady exit after tough pandemic working conditions combined with a rising cost of living and unmatched wages have left many unions in key industries unhappy
- Issues such as the Ukraine War and China's Covid policy will take time to resolve and could still spell chaos for global shipping networks.

Shippers looking at the year ahead, hoping for a return to normal, are likely to be disappointed. And any improvements in demand are likely to cause their own issues as shippers scramble to secure space, especially if they've over indexed on the spot market.

Succeeding will require the ability to balance rates, capacity, carrier relationships and inventory – and the agility to react to changes in the market .

Key Trends for 2023

After two years of high consumer demand and tight capacity leading to soaring rates, 2023 presents a rapidly cooling market on multiple fronts. For shippers, this presents a decidedly mixed picture.

- The return of service spending and tighter economic conditions has dampened the desire for goods, driving down freight prices after a bruising few years. However, many retailers are now left with overstuffed warehouses and unfillable contracts.
- After a period where freight cost and service provision were the key challenge for shippers, supply chain teams now have to focus on inventories, product focus and contract management, all while planning to catch the moment that demand returns.

Floating new capacity

2023 will see a significant amount of new capacity added to the market due to the shipping industry's recent replenishment cycle.

- Order books indicate that there will be an approximately 8% increase in shipping capacity in 2023, resulting in a global fleet of 30 million twenty-foot equivalent units (TEUs).
- Carriers will act to mitigate the impact of these new vessels on already-falling prices – tactics will likely include blanked sailings, retiring older ships and removing entire loops where possible.
- While this should mean that capacity will be more available when it comes to recovery, expect carriers to stringently prioritise contracts as they look to recoup revenues post-lull.

IMO 2023

The International Maritime Organization (IMO) 2023 rules aimed at reducing emissions from vessels come into force from January 1st, focusing on shipping efficiency and carbon intensity to reduce total GHG emissions from shipping by at least 40% from 2008 levels by 2030.

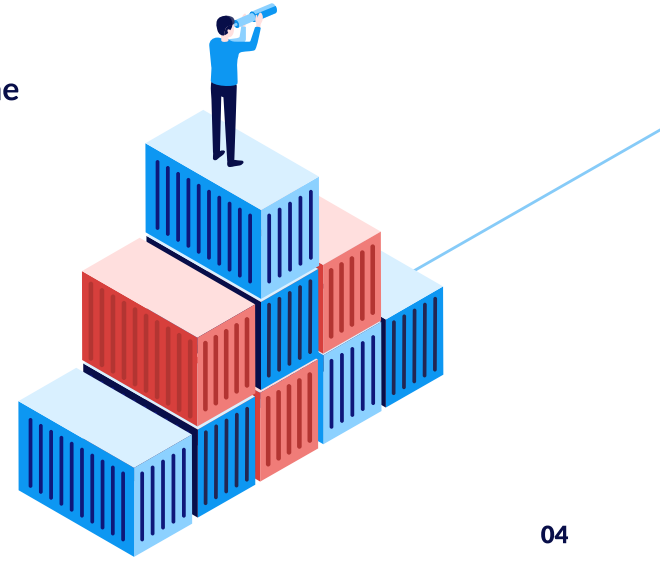
- Vessels will need to adhere to a specific Energy Efficiency Existing Ship Index (EEXI), have an enhanced Ship Energy Efficiency Management Plan (SEEMP) that lays out the vessel's energy efficiency improvement steps, and determine Carbon Intensity Indicator (CII) rating scheme.
- For older vessels, the choice will be to switch to cleaner biofuels, or simply slow down. With new capacity entering the market, many carriers may choose to retire older vessels rather than maintain inefficient operations.

Demand outlook

The key question for shippers, carriers and ports this year will be demand – as long as consumers keep their wallets closed, vessels will remain underfilled and rates suppressed.

- While shippers may enjoy a respite after years of high prices, the long term success of shippers and carriers together depends on a sustainable shipping market based on realistic rates.
- There is also the looming question of China and whether the government will be able to contain the post-zero-covid fallout in time to service the return of Western demand.

Demand conditions vary globally, as we'll discuss in the next section, meaning that economic recovery will be uneven, putting pressure on shippers to be more agile and efficient.



Trade Lane Analysis

Asia - United States

Rates

-81%

Far East - US West Coast

Rates

-72%

Far East - US East Coast[1]

Reliability

35.7%

Far East - US West Coast

Reliability

26.9%

Far East - US East Coast[2]

Routes between Asia and the USA have seen some of the steepest rate declines globally. After a year of high demand for Asian-made goods, rising prices and recession fears have suppressed consumer spending. However, the USA is also predicted to recover faster than other regions, due largely to its energy independence insulating it from fluctuating prices.

Key issues:

- **Inventory:** Asia imports to the U.S. by 11% year-over-year in October, which built on a September decline, while U.S manufacturing orders in China were down 40% in December.
- In spite of this, the average amount of inventory held by the 20 biggest public apparel companies in the US was up 26% to $2.1 billion in the third quarter of 2022. In 2023, retailers face the challenge of moving old stock before they can consider new orders, which will depend on consumers' willingness to open their wallets
- **Ports:** During the pandemic, the US West Coast saw some of the worst congestion on record and there are signs that this has had lasting effects. Volumes continue to grow for East Coast ports Q3 2022 by an average of 9%, indicating a shift from West to East Coast, with LA losing its title as the country's busiest port.
- At the same time, many ports are facing labour issues, such as the ILWU contract negotiations, which have further shifted business to the east coast.

Demand: US retail spending saw a record fall for the year in November, though rose in December in line with the holiday season. While the question remains whether the U.S will tip into a full-blown recession, there are indicators that demand may remain soft for some time, with observed rises in credit card balances and falls in personal saving rates.

[1]Source: Xeneta. Date range 1st Dec 2021 vs 1st Dec 2022/ 40ft cube.

[2]Source: *Sea Intelligence*, Global Liner Performance Report, November 2022

Trade Lane Analysis

Asia - Europe

Rates

-84%

Far East - North Europe[3]

Reliability

44.3%

Far East - North Europe[4]

Europe's more complex market has led to a more nuanced story of demand change and rate decline – while rates have fallen in real terms, a combination of blanked sailings, ongoing congestion and labour issues has prevented prices and service reaching 2019 levels.

Key issues:

- **Port conditions:** 2022 saw high profile strikes at key European ports, including Felixstowe, Rotterdam and Antwerp, as unions pushed for improved conditions in the aftermath of the pandemic. While some have been resolved, other disputes are ongoing, while new risks, such as a UK Border Force strike, could still bring ports to a standstill.
- **Economy:** The Eurozone has been hit particularly hard by fuel price rises stemming from the war in Ukraine, due to many countries' previous reliance on Russian gas and oil. While the end of winter may spell some relief for consumers, demand will depend on the ability of governments and the ECB to create favourable monetary policies to tame inflation and drive spending.

[3]Source: Xeneta. Date range 1st Dec 2021 vs 1st Dec 2022/ 40ft cube.
[4]Source: *Sea Intelligence*, Global Liner Performance Report, November 2022

Trade Lane Analysis

Europe - North America

Rates

+18%

Europe - US West Coast

Reliability

35.7%

Europe - US Transatlantic Westbound[6]

Rates

+9%

Far East - US East Coast[5]

While rates from Europe to North America have fallen from their mid-year peaks, the decline has been less steep than other lanes. This is partly due to the nature of capacity on this lane, relying heavily on backhaul routes from busier Asia-originating voyages. However, in 2023, this will put these routes at the mercy of markets beyond their control at a time when transatlantic trade is becoming more complex.

Key issues:

- **Vessel availability:** During the peak of rates, carriers prioritised lucrative Asia-originating voyages – to the point of skipping backhaul calls for less profitable routes. This trend is now happening in reverse – with blanked Asia voyages limiting capacity for transatlantic routes, leaving exporters scrambling for space. Frustratingly, this may mean normal transatlantic trade may require a return to demand for Asia-produced goods.
- **Manufacturing:** At the end of 2022, both the UK and EU had seen over six months of contraction in their manufacturing sectors. While easing congestion and raw material prices have stabilised to a degree, reports indicate that demand from overseas remains low, in line with domestic trends.
- **International competition:** U.S legislation has recently shown tendencies towards protectionism in industrial policy, such as 2021's tariffs on EU steel and aluminium, as well as the green subsidies in the 2022 Inflation Reduction Act that mandated domestic production. In the long term, this may dampen transatlantic trade in both directions.

[5]Source: Xeneta. Date range 1st Dec 2021 vs 1st Dec 2022/ 40ft cube.

[6]Source: *Sea Intelligence*, Global Liner Performance Report, November 2022

2023 Freight Strategies

While a global recession remains possible, conditions will vary by region. The challenge for shippers will be to manage costs in the short term while preparing to catch the recovery wave at the right time so ensure shelves are stocked in time for shoppers.

Rates vs Contracts

While many have jumped on the spot market as a way to reduce costs in the short term and recoup pandemic outflows, contracts still have a valuable role to play beyond just price. Contracts are essential for building relationships that can evolve with your business and offer steady improvement, as well as security in case of disruption.

- A mix of contracted space and long term rates along with spot utilisation gives shippers the security of guaranteed space once demand picks up, while helping them enjoy lower rates during the quieter period.
- By focusing on purchase order management and granular demand planning, shippers can project volumes for a range of scenarios and plan capacity with freight partners to secure orders as demand grows.

Think ahead for disruption

Industrial action remains a possibility in multiple regions, from many sources. In 2023, this risk needs to be taken into account on relevant routes, with contingencies in place.

- Shippers should prioritise flexibility, working with a freight forwarder that connects you to multiple carriers provides more options to vary routes in response to market conditions.
- Origin services should be adaptable to changing destination conditions – for example consolidating orders for a different port where necessary, or switching mode for urgent deliveries.

Managing costs & efficiency

While demand remains low, businesses need to be able to manage costs throughout the supply chain to avoid wasting time and resources.

- Centralise communication and supply chain visibility for supply chain stakeholders to ensure that manufacturers, carriers and warehousing services can work together to avoid delays, surplus charges and ensure space at destination.
- Create robust landed cost models to track per-SKU spending, tracking freight, production, customs and storage costs to maximise unit profitability.

Planning to succeed in 2023

In 2023, shippers will, once again, need to be prepared for anything. From the war in Ukraine to China's covid policy, there are just too many unknowns to leave things to chance. Failure to anticipate and react to the market will leave businesses with higher shipping costs, missed revenue opportunities and unhappy customers.

Supply chain teams need reliable data, end-to-end visibility and agile logistics services that can keep up with the rapidly evolving ocean market. Built for agility and tested by disruption, Zencargo's digital freight forwarding services are trusted by some of the world's fastest growing companies to steer them through volatility and drive reliable growth.

Complete supply chain visibility:

Zencargo's world-class supply chain management platform connects your network with real time data, visibility and communication. Track individual SKUs from purchase order to delivery with automated exception management, to align stakeholders and execute with confidence.

Granular insight:

Zencargo's world-class supply chain management platform connects your network with real time data, visibility and communication. Track individual SKUs from purchase order to delivery with automated exception management, to align stakeholders and execute with confidence.

Bespoke solutions:

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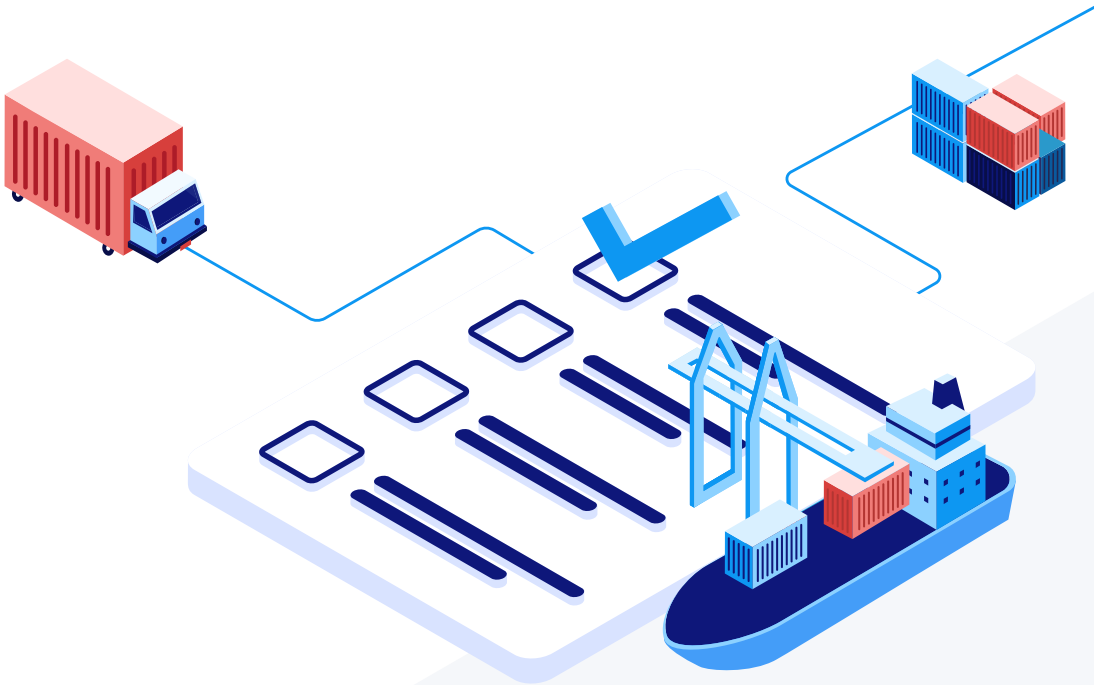
Get in touch

To find out more about how Zencargo can support your team in 2023, get in touch



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